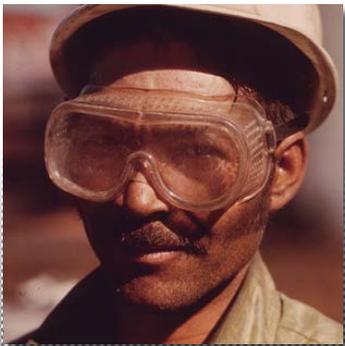


THE ECONOMIC EFFECTS OF ADOPTING A RIGHT-TO-WORK LAW: IMPLICATIONS FOR ILLINOIS



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POLICY BRIEF
October 7, 2013

Executive Summary

The 9 million-job shortfall induced by the late-2007 economic recession has caused states to rethink policies on employment and income growth. One proposed policy change in many struggling states is the implementation of right-to-work (RTW) laws, which limit the ability of labor unions to collect dues from the workers they represent and influence the conditions of employment for a workplace. The empirical evidence on the effect of adopting a RTW law on labor market outcomes and state budgets, however, is both varied and mixed. If the adoption of a RTW law is to be in the policy discussion for another state, the state's voters, residents, workers, and policymakers deserve information on the probable impact of such action.

The following study, conducted by researchers at the University of Illinois at Urbana-Champaign and University of Michigan-Ann Arbor provides both a national assessment and Illinois forecast on the effect of RTW laws on important labor market outcomes, including earnings, employment, unionization, and inequality. Right-to-work laws were nationally evaluated in those targeted areas and then a separate analysis was applied to Illinois. This comprehensive investigation has resulted in six key findings:

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1. RTW lowers worker earnings.

RTW has a negative effect on worker wages. RTW laws are associated with a 2 to 8 percent decrease in worker earnings, with the general effect being about a 6 percent drop.

- RTW laws reduce private sector annual earnings by over \$2,000, lower manufacturing worker earnings by almost 9 percent and construction worker earnings by more than 22 percent.

- RTW's effect on earnings growth is unclear. In general, RTW appears to be associated with a very small positive effect on wage growth, but the effect diminishes over time and never compensates for the policy's prominent downward effect on wages.

- Over ten years, the effect of RTW on incomes would be a loss of almost \$24,400 for all workers, more than \$31,200 for manufacturing workers, and over \$60,600 for construction workers. Simply put, RTW is a recipe for lower lifetime earnings.

On the other hand, unions have fared far better at raising and protecting worker earnings than RTW laws.

- Nationwide, union membership is correlated with approximately a 12 to 13 percent increase in earnings.
- In RTW states the union wage effect is smaller but robust at roughly 10 percent.

2. The evidence is inconclusive on RTW's employment effect.

The general conclusion is that RTW's impact on job gains is mixed.

- In terms of the probability of having a job in any sector, the effect of RTW ranges from a 1.2 percentage point decrease to a 1.4 percentage point increase, with a middle estimate of a positive 0.4 percentage point bump in the likelihood of being employed in any job.

- For the private sector, RTW laws are also associated with a 0.4 percent increase in employment each year, but the effect diminishes over time.

- The law's ultimate effect on Illinois' employment may at best be slightly positive but temporary and at worst negative.

- When isolated and measured against other job creation variables, RTW has no proven record of stimulating economic growth.

3. RTW reduces union membership.

- While the industry in which a worker is employed has the largest impact on the probability of being a union worker, RTW has a clear negative impact on union membership.

- The effect of RTW on union membership may be as little as less than a 2 percentage point reduction and as large as an almost 10 percentage point decline.

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4. RTW increases gender and racial wage inequality.

- For employed African-Americans, RTW laws lower African-American worker earnings by between almost 2 percent and 9 percent.
- Similarly, RTW’s effect on the wages of female workers is generally negative as well. RTW laws lower the average female worker’s wages by between almost 2 and 8 percent.
- For Latino/a workers, the results are less clear: RTW may reduce hourly wages by by as much as/or more than 8 percent for Latino/a workers but may cause a minimal 0.8 percent increase in wages.

5. RTW reduces employee benefits and increases workplace fatalities.

- Employers in the construction sector, as a case study, spent roughly a little more than \$5,000 and \$4,600 per employee on respective legally-required benefits and fringe benefits in RTW states.
- In comparison, construction firms in CB states spent over \$1,200 more per employee on legally-required benefits and over \$2,900 more on fringe benefits.
- Construction fatality rates in RTW states were higher than those in CB states.

6. Adopting a RTW law would have negative impacts on the Illinois economy and budget.

If Illinois adopted a RTW law:

- Over time, worker earnings would fall by between 5 and 7 percent, manufacturing earnings would drop by almost 9 percent, construction earnings would decline by 22 percent, and the union wage premium would fall by about 2 percentage points.
- The state’s unemployment rate could fall from 9.1 percent to 8.4 percent but the drop could be temporary.
- The unionization rate would decline from 14.6 percent to between 4.7 percent and 13.1 percent.
- Over time, the hourly wages of African-American workers would decrease by 2-9 percent, the hourly wages of women would fall by between 2-8 percent, and the hourly wages of Latino/a workers could fall by as much as 8 percent.
- The benefits packages offered to construction workers would decline roughly \$4,100 annually and approximately 107 *additional* Illinois workers would lose their lives due to work-related injuries in construction sectors over 10 years.
- After the third year of adoption, annual total labor income in the state would drop by between \$2 billion and \$9 billion and by \$35 billion to \$40 billion over the next five years.
- After the third year of adoption, annual state income tax revenues would decline by \$75 million to \$355 million and by about \$1.5 billion over the next five years.

Right-to-work laws have overall negative impacts for American workers. By and large, as a policy prescription, RTW would generate harmful effects to Illinois’ economy, lower its capacity to provide essential public services, and degrade the quality and condition of the state’s labor force.

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Introduction



The 9 million-job shortfall induced by the late-2007 economic recession has caused states to rethink policies on employment and income growth. One proposed policy change in many struggling states is the implementation of a right-to-work law, which limits the ability of labor unions to collect dues from the workers they represent and influence the conditions of employment for a workplace. In 2012, Indiana became the first state in America to adopt a right-to-work (RTW) law since Oklahoma in 2001. Michigan followed in early 2013.

Since the 2010 elections, initiatives to include RTW laws in a state's legislative agenda have begun in at least 10 other collective bargaining (CB) states, including Illinois.¹ Recently, the governor of Missouri pledged at an American Legislative Exchange Council (ALEC) conference that a right-to-work measure would be put on the ballot in 2014. If voters passed the law Missouri would become the 25th state to adopt the anti-union law.² While considerable efforts have been made by legislators and political organizations to pass RTW laws in states across the country, the empirical evidence on the effect of adopting a RTW law on labor market outcomes and state budgets is both varied and mixed. If the adoption

of a RTW law is to be in the policy discussion for another state, the state's voters, residents, workers, and policymakers deserve information on the probable impact of such action.

This policy brief provides a forecast on the effect of RTW laws on important labor market outcomes—including earnings, employment, unionization, and inequality.* The paper also investigates RTW's impacts on two particularly affected industries (manufacturing and construction) and three demographic groups (African-American, Latino/a, and female workers). The findings are subsequently applied to the State of Illinois to project the potential law's impact on Illinois workers and on the state's tax revenues.

What is a Right-to-Work Law?

The term "right-to-work" is a misnomer that has little to do with the right of a person to seek and accept gainful employment. Rather, RTW is a state-level policy that prohibits a labor union from negotiating union security clauses with an employer. In essence, it is a restriction on the liberty of the two parties to form a contract, with the intent to discourage union activities.

Union security clauses are the legal mechanisms by which unions overcome the collective action, or "free-rider," problem. The free-rider problem arises because individuals who stand to enjoy the fruits of the collective also have an incentive to avoid making any contribution to the cause, especially if they believe the group

will succeed without their support. When a significant number of individuals elect to “free ride,” the collective becomes resource-starved, causing it to underperform or fail altogether. To avoid this fate, rules which limit the ability of an individual to shirk their obligation to the group are necessary.

Union security clauses are not automatic. They are negotiated contract provisions which regulate the collection of union dues. In CB states, the parties are free to negotiate a range of union security options. In a RTW state, objectors to unions still receive all the benefits of unionization if they are covered by a union contract. It is important to understand that a labor union does not control the composition of the bargaining unit. Thus, coverage is not decided by the union, but rather by an administrative agency (i.e., a federal or state labor board) that determines if a particular worker shares a “community of interests” with the unionized group. By both law and the practicalities of the workplace, however, unions must represent all persons covered by their organization. In RTW states, persons covered can refuse to pay dues or fees, and yet receive *all* the benefits that are earned from the contributions of others, including the union wage premium, health insurance, pension benefits, and representation through the grievance system.³

In a CB state, on the other hand, a labor union and employer may (but are not *mandated* to) agree to a union security clause that requires all covered persons to pay dues or fees to finance collective bargaining activities. In such situations, someone seeking to avoid paying dues or fees to the union has three options: (1) voluntarily separate from their job, (2) convince union leadership to negotiate an open shop, or (3) persuade fellow workers to decertify the union. Given that the last two outcomes are difficult to achieve, the most viable option for dissenters is to work elsewhere.

Review of Previous Right-to-Work Studies

A recent study released by the Congressional Research Service finds that “existing empirical research is inconclusive” and that “even the most sophisticated studies are unable to fully isolate the effects of varied union security policies” from the effects of RTW laws.⁴ It is intuitive, however, that RTW lowers the level of unionization in a state. The work that unions perform is not cost-free. In addition to organizing members, negotiating and administering contracts, and dealing with political affairs, labor unions in RTW states must expend resources on activities aimed at discouraging members from defecting even while getting by with less financial resources at their disposal. By hampering the collection of dues, advocates for RTW understand that the policy puts organized labor in a weaker position and tends to result in lower union membership rates. This, paired with the inconclusive effect of RTW on wages and employment, has led one researcher to assert that the true intent of RTW laws is based on “hidden objectives” which are more ideological than pragmatic: “less influence for unions, less bargaining power for workers, more wealth for the wealthy, and more misery for the immiserated.”⁵



* See the Full Report for a detailed explanation of all of the study’s key findings.

RTW Impacts on Labor Market Outcomes

RTW Lowers Worker Earnings

The data strongly indicate that RTW lowers worker earnings. RTW laws are associated with a 2.1 to 8.2 percent decrease in worker earnings, with the general effect being about a 6 percent drop. RTW laws reduce private sector annual earnings by \$2,030 to \$2,338 and lower manufacturing and construction worker earnings by 8.6 percent and 22.2 percent respectively. RTW’s effect on earnings growth is unclear. In general, RTW appears to be associated with a very small positive effect on wage growth (between 0 percent and 0.4 percent), but the effect diminishes over time and never compensates for the policy’s prominent downward effect on wages. Over ten years, the effect of RTW on incomes would be -\$24,393 for all workers, -\$31,252 for manufacturing workers, and -\$60,620 for construction workers. Simply put, RTW is a recipe for lower lifetime earnings.

On the other hand, unions have fared far better at raising and protecting worker earnings than RTW laws. Nationwide, union membership is correlated with approximately a 12 to 13 percent increase in earnings. In RTW states the union wage effect is smaller but robust at roughly 10 percent.

Effect on Manufacturing and Construction Industry Wages

Over 10 years, a manufacturing worker who earns \$35,000 this year would bring home \$31,252 less in total wages on average as a result of Illinois becoming a RTW state in 2014 (Table 1). Estimates on the percentage change in earnings corroborates this finding, as RTW laws are associated with manufacturing wages that are 8.6 percent lower than in CB counties on average. Moreover, an analysis of wage growth reveals— similar to the results for all private sector industries— that average RTW manufacturing wage growth begins at a lower base rate (-0.61 percent), grows faster than CB manufacturing wages (+0.34 percent per year), but declines after a short time (6.6 years). Once again, RTW as a policy prescription does not by itself raise average wages above what they would have otherwise been in a CB state. In terms of earnings, manufacturing workers are better off in collective bargaining states.

Worker Earning \$35,000	Illinois Becomes a RTW State	Illinois Remains a CB State	Difference
2013	\$35,000	\$35,000	\$0
2014	\$33,373	\$36,402	-\$3,029
2015	\$34,485	\$37,723	-\$3,238
2016	\$35,609	\$38,965	-\$3,356
2017	\$36,739	\$40,132	-\$3,393
2018	\$37,871	\$41,233	-\$3,362
2019	\$38,998	\$42,277	-\$3,279
2020	\$40,114	\$43,276	-\$3,162
2021	\$41,212	\$44,243	-\$3,031
2022	\$42,285	\$45,195	-\$2,910
2023	\$43,325	\$46,148	-\$2,822
10 year totals	\$392,371	\$424,526	-\$31,252

Source: Authors’ analysis of ES-202 Covered Employment and Wages, U.S. Department of Labor Bureau of Labor Statistics (2012) for industry-county pairs from 2001 to 2011.

For construction workers, right-to-work laws have extremely negative earnings consequences. In fact, in terms of total wages, RTW laws reduce construction industry wages by \$6,062 on average, without making any gain over time relative to CB states. Over 10 years, a construction worker who earns \$35,000 this year would therefore bring home \$60,620 less in total wages on average as a result of Illinois becoming a RTW state (Table 2). The normalized approach substantiates this result by finding that construction wages are far lower in RTW counties, with workers taking a 22.2 percent pay reduction compared to their complements in CB counties. There is no yearly bonus for construction employees to working in a RTW county. Instead, working in a RTW state has only negative effects on the earnings of construction workers.

Worker Earning \$35,000	Illinois Becomes a RTW State	Illinois Remains a CB State	Difference
2013	\$35,000	\$35,000	\$0
2014	\$30,272	\$36,334	-\$6,062
2015	\$31,550	\$37,612	-\$6,062
2016	\$32,737	\$38,799	-\$6,062
2017	\$33,794	\$39,856	-\$6,062
2018	\$34,685	\$40,747	-\$6,062
2019	\$35,374	\$41,436	-\$6,062
2020	\$35,822	\$41,884	-\$6,062
2021	\$35,995	\$42,057	-\$6,062
2022	\$35,853	\$41,915	-\$6,062
2023	\$35,362	\$41,424	-\$6,062
10 year totals	\$376,444	\$437,064	-\$60,620

Source: Authors' analysis of ES-202 Covered Employment and Wages, U.S. Department of Labor Bureau of Labor Statistics (2012) for industry-county pairs from 2001 to 2011. Full dataset includes 76,202 construction industry-county groupings. Analysis based on multi-level mixed regression model.

Does RTW Increase Employment?

The general conclusion is that RTW's impact on job gains is mixed. In terms of the probability of having a job in any sector, the effect of RTW ranges from a 1.2 percentage point decrease to a 1.4 percentage point increase, with a middle estimate of a positive 0.4 percentage point bump in the likelihood of being employed in any job. For the private sector, RTW laws are also associated with a 0.4 percent increase in employment each year, but the effect diminishes over time. The law's ultimate effect on Illinois' employment may at best be slightly positive but temporary and at worst negative. When isolated and measured against other job creation variables, RTW has no proven record of stimulating economic growth.

Effect on Manufacturing and Construction Industry Employment

The evidence on the impact that RTW laws have on manufacturing and construction industry employment is mixed. Table 3 chronicles RTW's effects on manufacturing job growth and share of the private sector economy. The table reports estimates on RTW's effects on the change in manufacturing employment and growth in manufacturing employment. The general conclusion is that the positive effects of RTW laws are transitory, and become negative over time. While RTW laws are statistically associated with a 17.55 job increase in manufacturing per county, each year this gain is reduced by 1.98 jobs. While RTW provides some initial

protection against manufacturing job losses, employment decline was -2.42 percent per year on average in RTW counties from 2001 to 2011, and was actually more negative than CB counties in the last two years of analysis (2010 and 2011).

RTW Effects on Manufacturing Employment, Jobs Per Industry Per County		
Effect	Change in Jobs	Employment Growth
Right-to-work effect	17.55 per year	0.62% per year
RTW effect diminishes:	After 9 years	After 9 years
National job growth†	2.01 per year	-3.09% per year

Source: Authors' analysis of ES-202 Covered Employment and Wages, U.S. Department of Labor Bureau of Labor Statistics (2012) for industry-county pairs from 2001 to 2011.

†Based on the average yearly growth over ten years.

For the construction industry, RTW is strongly associated with changes in employment that are initially 20.47 jobs fewer (3.17 percent lower) than CB counties. RTW laws are causally related to slight per year increases in construction employment (+12.85 jobs and +2.00 percent) but once again those advantages disappear in the long-run. After 13 years, the average yearly construction employment growth in RTW counties is less than in CB states. Table 4 summarizes the impact of RTW into average yearly effects over ten years.

RTW Effects on Construction Employment, Jobs Per Industry Per County		
Effect	Change in Jobs	Employment Growth
Right-to-work effect	12.85 per year	2.00% per year
RTW effect diminishes:	After 13 years	After 13 years
National job growth†	-10.12 per year	-1.05% per year

Source: Authors' analysis of ES-202 Covered Employment and Wages, U.S. Department of Labor Bureau of Labor Statistics (2012) for industry-county pairs from 2001 to 2011.

†Based on the average yearly growth in employment over ten years.

RTW Reduces Union Membership

Analogous to determining RTW's impact on the probability of having a job, this section analyzes the probability of an employed worker being a union member. First, a simple correlation detects that RTW laws are associated with a 9.7 percentage point decline in the probability of being a union member (Table 5). A reduction in probability of being in a union is especially significant given that just 12.2 percent of all workers were union members from 2003 to 2012. For the working-age population 18 to 64 years of age, the 2003 to 2012⁶ union membership rate was 12.5 percent.

Accounting for demographic, industry, work, and education variables and limiting the research to the working-age employed population yields similar results. RTW laws lower a worker's probability of being a union member by 9.9 percentage points on average. During the Great Recession, the union membership rate increased by 0.6 percentage points among employed workers. As the employed worker pool shrunk, unions protected the jobs of their members while those not represented by a labor union were more likely to lose their job. During the recession, RTW, on the other hand, was statistically associated with an additional 0.4 percentage point decline in the probability of being a union member, *beyond* the 9.9 percentage point average reduction. After adding in state-level factors, RTW is statistically associated with a 1.5 percentage point decrease in the probability of being a union member. (Table 5).

Outside of the industry of employment, almost no factor is as significant as RTW laws in determining a worker's probability of being a union member. Being a manufacturing worker raises a worker's likelihood of being a union member by 14.0 percentage points and being a government employee at any level increases the probability by between 14.1 and 22.9 percent. Other characteristics have only a fraction of the impact.

RTW Effects on the Probability of Being a Union Member			
Effect	No Controls	All Controls	Controls with State Effects
RTW effect	-9.7%	-9.9%	-1.5%
Recession		0.6%	0.6%
Recession, RTW state		-0.4%	0.0%

Source: Authors' analysis of CPS-ORG, Center for Economic and Policy Research Uniform Data Extracts (2012) for employed workers from 2003 to 2012.

RTW Increases Inequality

Effects on Race and Gender Wage Outcomes

One measure of inequality is to analyze RTW's effects on the real wages of African-American, Latino and Latina, and female workers. Table 6 presents the average real hourly wages of all workers by race or ethnicity in RTW states and CB states from 2003 to 2012. The results are broken down by native-born and immigrant workers but are not adjusted for other important characteristics such as education or industry. The results show the negative effect of RTW on all major racial/ethnic identifications.

RTW has particularly negative effects on the wages of native-born minority groups: per-hour work incomes are at least \$2.49 lower in RTW states for native-born African-American, Latino/a, and Asian workers compared to their respective CB counterparts. By contrast, wages are \$1.82 per hour lower in RTW states than in CB states for whites born in the United States. For foreign-born workers, RTW has a negative effect, but generally less negative than for those born in America. Only the wages of immigrant white workers fall by more on average than their native-born equivalents due to RTW; immigrant white workers experience a \$2.20 hourly wage penalty from RTW. Among immigrant workers, Asians suffer the largest drop in hourly wages associated with RTW (-\$2.65), while African-Americans (-\$1.76) and Latinos and Latinas (-\$0.80) still see a wage penalty.



Effect	RTW States	CB States	RTW-CB
<i>Native Born</i>			
White, non-Latino	\$22.14	\$23.96	-\$1.82
African-American	\$16.82	\$19.59	-\$2.77
Latino/a	\$17.15	\$19.74	-\$2.49
Asian	\$21.32	\$24.64	-\$3.32
<i>Immigrant</i>			
White, non-Latino	\$24.16	\$26.36	-\$2.20
African-American	\$18.13	\$19.89	-\$1.76
Latino/a	\$14.92	\$15.72	-\$0.80
Asian	\$24.01	\$26.66	-\$2.65

Source: Authors' analysis of CPS-ORG, Center for Economic and Policy Research Uniform Data Extracts (2012) for employed workers from 2003 to 2012.

Table 7 reports RTW effects on African-American, Latino/a, and female wages after controlling for other important variables. All else equal, RTW laws have consistently negative impacts on the real hourly wages of employed African-Americans (Table 7). RTW laws are statistically associated with a \$0.00 to \$0.26 decrease in African-American real hourly wages on average, in addition to the wage penalty faced nationwide by African-American workers of between \$2.21 and \$2.61 less per hour and the uniform negative effect of RTW laws (-\$2.10 per hour). In dollar figures, RTW laws are found to lower an African-American worker's wage by a total of \$2.36 per hour compared to what it would be in a CB state. Moreover, RTW is statistically associated with between a 1.9 to 8.5 percent wage penalty for working-age African-American workers.

For Latino/a workers, the results are more mixed but largely negative (Table 7). The findings show that RTW may lower the wages of Latino and Latina workers by \$2.10 per hour (or 8.3 percent). After adding in the state-level controls, RTW is found to raise wages by \$0.90 per hour (0.8 percent). When added to the estimates from Table 7, the consensus in the models is that at worst RTW lowers the wages of Latino/a workers and at best marginally raises them.

RTW's effect on the wages of female workers is also somewhat unclear but largely negative (Table 7). The findings clearly illustrate that women earn significantly less than men. Simply by being a female, a woman's per-hour wage is reduced by about \$4.70, or about 17.5 percent. RTW has a negative impact on women, though the impact is less negative than it is for men. Female employees earn \$1.90 less per hour than they would in a CB state. However, when state-level effects are included in the analysis RTW laws yields a smaller \$0.10 per hour decline on the real wages of female workers. The normalized model, though, shows that RTW laws lower the average female worker's wages by 1.9 to 7.6 percent from their counterparts in CB states who perform the same work in the same industry with the same level of education.

Table 7: RTW Effects on Working-Age African-American, Latino/a, and Female Wages				
RTW Effects on Wages, Employed Workers Aged 16 to 64				
Effect	Real Wage, All Controls	Real Wage, with State Effects	In (Real Wage), All Controls	In (Real Wage), with State Effects
<i>Race/Ethnicity</i>				
RTW effect on African-Americans	-\$2.36	\$0.00	-8.5%	-1.9%
RTW effect on Latinos and Latinas	-\$2.10	\$0.90	-8.3%	0.8%
RTW effect on all other races	-\$2.10	\$0.00	-5.7%	0.0%
African-American, national penalty	-\$2.21	-\$2.65	-9.3%	-10.5%
Latino/a, national penalty	-\$1.42	-\$2.61	-5.0%	-9.4%
<i>Gender</i>				
RTW effect on women	-\$1.90	\$0.10	-7.6%	-1.9%
RTW effect on men	-\$2.10	\$0.00	-5.7%	0.0%
Women, national penalty	-\$4.73	-\$4.63	-17.6%	-17.5%

Source: Authors' analysis of CPS-ORG, Center for Economic and Policy Research Uniform Data Extracts (2012) for employed workers from 2003 to 2012.

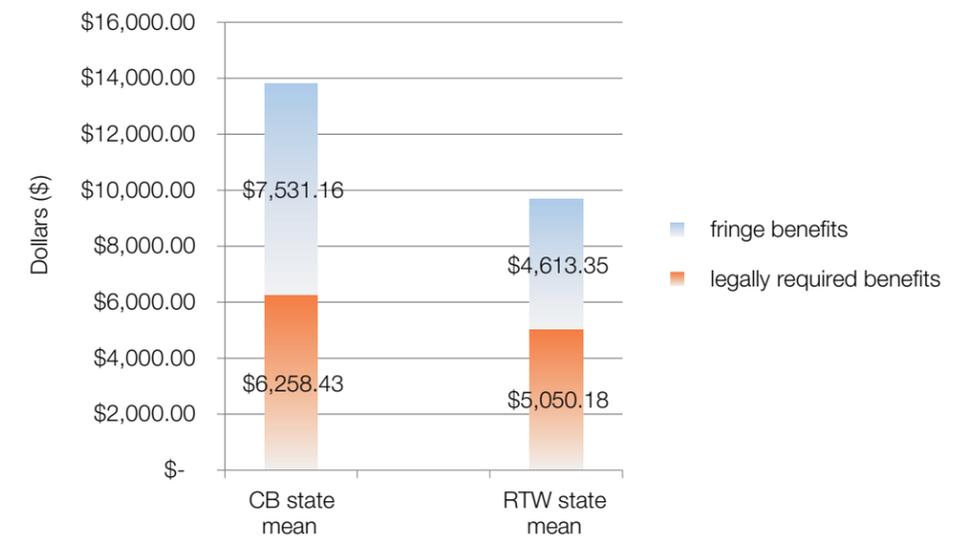
†Based on the average yearly growth in wages over ten years.

RTW Leads To Decreased Benefits And Increased Workplace Fatalities: Construction Industry Case Study

Given that one goal of labor unions is to protect worker health and safety, and that RTW laws reduce unionization, this section explores the association of RTW laws with employer-provided benefits and workplace fatalities in the construction industry. Benefits provided to workers in addition to their salaries can be split into two main categories: legally-required benefits and fringe benefits. Legally-required benefits include expenditures made by employers for Social Security and Medicare contributions, unemployment insurance, worker's compensation, and state temporary disability payments. In contrast, fringe benefits are voluntary expenditures made by employers for items such as life insurance premiums, pension plans, medical insurance premiums, welfare plans, and other union negotiated benefits.

The Economic Census provides state-level data on the dollar amounts spent by employers on both legally-required benefits and fringe benefits in the construction industry. In 2007, the most recent year in which an Economic Census was conducted, employers in construction sectors spent roughly \$5,050 per employee on legally-required benefits in RTW states. In comparison, CB states spent over \$1,200 more per employee on legally-required benefits during this same time period. The difference in spending is even more pronounced when comparing dollars spent on fringe benefits or voluntary expenditures by employers in construction. Firms spent an average of \$4,613 per employee on fringe benefits in states with RTW laws in 2007. In this same year, construction employers spent approximately \$2,918 more per worker on fringe benefits in states with collective bargaining rights. The disparity in these experiences is displayed in Figure 1.

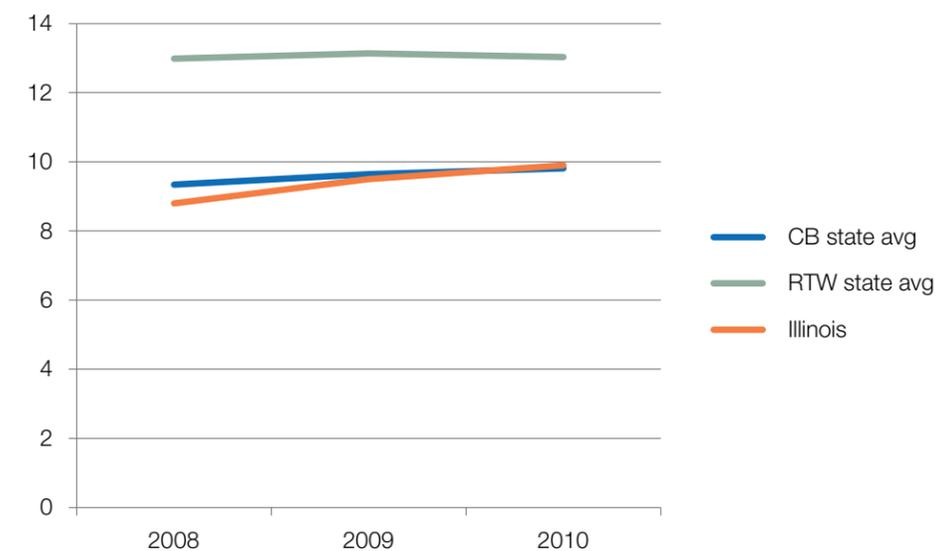
Figure 1: Dollars Spent Per Employee in Construction Sectors, CB States vs. RTW States, 2007



Source: Authors' analysis of Economic Census data for the construction industry, U.S. Census Bureau and U.S. Department of Commerce (2007).

The underreporting of occupational injuries and illnesses suggests that a comparison of the experiences of RTW states and CB states would be unreliable. Instead, fatality rates provide a more accurate assessment of comparative experiences on the state level. Simply stated, deaths of workers on the job are difficult to conceal. Fatal injury rates depict the risk of incurring a fatal occupational injury and can be used to compare risk among different worker groups. Data from BLS Census of Fatal Occupational Injuries (CFOI) report that construction fatality rates in RTW states averaged 13.1 deaths per 100,000 workers from 2008 to 2010. In CB states, on the other hand, fatality rates are much lower at 9.6 deaths per 100,000 workers. For construction workers in Illinois, the fatality rate was lower at 9.4 deaths per 100,000. Figure 2 graphically represents these findings.

Figure 2: Incidence Rates of Fatal Injuries in Construction Sectors in CB States, RTW States, and Illinois, 2008-2010



Source: Authors' analysis the Survey of Occupation Injuries and Illnesses (SOII) data for the construction industry, U.S. Department of Labor Occupational Safety and Health Administration (2010).

Predicted Right-to-Work Impacts on Illinois

A forecast of anticipated labor market impacts should the State of Illinois adopt a right-to-work law can be estimated by the effects of RTW outlined in the previous section. For the following estimates, it is important to understand that the effects will be gradual and will not trigger instant changes to the labor market.⁷

If Illinois adopted a RTW law, earnings would fall by around 5.7 to 7.3 percent over time. For manufacturing and construction workers, RTW would reduce their wage and salary incomes by 8.6 percent and 22.2 percent respectively. The effect of RTW on wage growth is unclear. RTW would have a small positive effect on wage growth that would diminish over time: a wage growth rate of between 0 and 0.4 percent per hour is predicted; with estimates closer to the former as Illinois earnings begins to align with those in RTW states. The union wage premium in Illinois would also fall by about 2.0 percentage points.

It is unclear whether RTW would increase employment in Illinois. The conservative, middle-of-the-road estimates purport that RTW would spur between a 0.4 and a 0.55 percent increase in jobs. Accordingly, the state's unemployment rate would initially fall from 9.1 percent to between 8.3 and 8.5 percent. There is evidence that this small reduction in unemployment, however, may cease over a few years.

Other labor market outcomes are much clearer. The unionization rate for Illinois would unambiguously decline from 14.6 percent to between 4.7 percent and 13.1 percent over time. RTW would reduce the hourly wages of African-American workers by between 1.9 and 8.5 percent and between 1.9 and 7.6 percent for women. For Latino/a workers, RTW appears to reduce hourly wages by as much as 8.3 percent but may raise them by a minimal 0.8 percent. RTW would also reduce the annual benefits packages offered to Illinois construction industry workers by as much as \$4,126.

As previously noted, construction workplace fatalities are 3.5 deaths per 100,000 workers lower in CB states than in RTW states. A forecast of anticipated work-related fatalities for Illinois construction workers should RTW be enacted can be estimated by comparing Illinois fatality rates and fatality rates in RTW states. The average incidence rate of fatal injuries from 2008-2010 for construction workers in Illinois was 9.4 deaths per 100,000 workers. In Illinois in 2008, 32 construction workers were killed on the job while 27 workers died in 2009 and another 27 were killed in 2010. If RTW were to be passed in Illinois, it could be estimated that an additional 10.67 Illinois construction workers would lose their lives on an annual basis. This estimate assumes that construction industry production would be similar to levels experienced from 2008-2010. Extrapolated over the span of a decade, approximately 107 additional Illinois workers would suffer fatal work-related injuries in construction sectors due to enacting a RTW law. Since this assumes long-term production similar to that seen in the Great Recession when output recessed, this may in fact also be a conservative estimate of the increase in fatalities.

To determine tax impacts, findings generated from both the CPS-ORG data and ES-202 data were employed, providing for a degree of sensitivity analysis.^{*8} The CPS-ORG findings show that RTW lowers real worker wages by 2.1 to 7.3 percent. They also show that the probability of being employed increases by 0.4 to 1.4 percent from RTW, although since the recession RTW laws have decreased the probability by 1.2 percent. These findings allow for the creation of a three by two matrix to determine the effect that implementing a RTW law would have on Illinois. (Table 8).



* See the Full Report for a detailed explanation of the data sources and methodological approach of this analysis.

In 2012, the CPS-ORG data report that there were 5,470,769 residents older than 16 years of age in Illinois (Table 8). Of those, 60.1 percent were employed, higher than the share for all CB (58.6 percent) and RTW states (58.5 percent), for a total employed population of 3,286,695 workers. Often overlooked is that the proportion of Illinois' population 16 years or older that is in the labor force is 66.1 percent, greater than the proportion for all CB states (64.1 percent) and for all RTW states (63.2 percent). Consequently, the state's 2012 unemployment rate of 9.1 percent was actually higher than the rate for all CB (8.6 percent) and RTW states (7.4 percent). If either more unemployed individuals in Illinois had decided to drop out of the labor force or more people in RTW states had opted to enter the labor force and look for a job, the 2012 unemployment numbers would look very different. If Illinois' labor force participation rate matched that of RTW states, the state's unemployment rate would have been 4.9 percent in 2012 and if RTW states' labor force participation rate matched that of Illinois, their unemployment rate would have been 11.5 percent in 2012. Claims that RTW laws lower the unemployment rate should be subject to serious analysis.

CPS-ORG data also report that the average wage in Illinois matched the mean wage for all CB states in 2012, at \$22.95 per hour, and that the union membership rate for Illinois workers was 14.6 percent, slightly lower than the rate of 15.2 percent for all CB states.

Table 8 displays the matrix of estimates of the impact of adopting a RTW law in Illinois. The fall in real hourly wages by either 2.1 percent or 7.3 percent adjusts downward the average real wage to \$22.46 or \$21.27 per hour. RTW could cause the state's unemployment rate to fall to either 7.0 percent or 8.5 percent, or, if recent RTW trends were upheld instead, enacting RTW could increase the unemployment rate to 10.9 percent. In only one scenario are the effects of implementing a RTW law positive on labor income and state income tax revenues in Illinois. In the five other scenarios, both total worker earnings and state income tax revenues would be projected to decline. The middle-of-the-road estimates of the effect that RTW would have on labor income indicate a \$1.9 billion to \$8.9 billion annual reduction in labor income across the state, with resultant yearly tax revenue declines of between \$76.9 million and \$355.0 million. Note that, due to "wage stickiness" and the fact that many collective bargaining agreements would remain valid and binding for a few years after Illinois became a RTW state, these estimates are likely more appropriate after the third year of the law's adoption.

	Base	+1.4%	+1.4%	+0.4%	+0.4%	-1.2%	-1.2%
Employment	Base	+1.4%	+1.4%	+0.4%	+0.4%	-1.2%	-1.2%
Wages	Base	-2.1%	-7.3%	-2.1%	-7.3%	-2.1%	-7.3%
Wage, 2012 dollars	\$22.95	\$22.46	\$21.27	\$22.46	\$21.27	\$22.46	\$21.27
Employment effect		+76,591	+76,591	+21,883	+21,883	-65,649	-65,649
Unemployment rate	9.1%	7.0%	7.0%		8.5%	8.5%	10.9%
Labor income effect†		\$0.241b	-\$6.825b	-\$1.923b	-\$8.874b	-\$5.385b	-\$12.152b
State tax effect (1 yr.)‡		+\$9.6m	-\$273.0m	-\$76.9m	-\$355.0m	-\$215.4m	-\$486.1m
Union Membership %	14.6%	4.7% - 13.1%					

Source: CPS-ORG, Center for Economic and Policy Research Uniform Data Extracts (2012).

†The labor income effect is the average hourly wage (adjusted by the wage effect) multiplied by the average usual weekly hours worked by Illinois residents (33.86 hours) multiplied by 52 weeks multiplied by the number of employed persons (adjusted by the employment effect).

‡The state tax effect is the change in labor income multiplied by a uniform average tax rate of 4 percent. Since 2011, the Illinois state income tax is a flat rate of 5 percent of net income. Given standard exemptions/deductions and that Manzo and Bruno (2013) found the average state income tax rate for Illinois residents was 4.7 percent, the assumed 4 percent rate provides a conservative estimate.

Recapping RTW's Estimated Effect on Illinois

If Illinois adopted a RTW law:

- Earnings would fall by 5.7 to 7.3 percent over time.
- Manufacturing earnings would fall by 8.6 percent over time.
- Construction earnings would fall by 22.2 percent over time.
- Wage growth would be between 0 and 0.4 percent but closer to 0 percent.
- The union wage premium would fall by about 2.0 percentage points over time.
- Employment would increase by a very small 0.4 to 0.55 percent but this increase may cease over a few years.
- The unionization rate for Illinois would decline from 14.6 percent to between 4.7 percent and 13.1 percent.
- The hourly wages of African-American workers would drop by 2-9 percent over time.
- The hourly wages of Latino/a workers could drop by as much as 8 percent over time.
- The hourly wages of women would fall by 2-7 percent over time.
- The annual benefits packages offered to construction workers would fall by as much as \$4,126 over time.
- Approximately 107 additional Illinois workers would lose their lives due to work-related injuries in the construction sector over 10 years.
- Annual total labor income in the state would drop by between \$1.9 billion and \$8.9 billion by the third year after adoption.
- Annual state income tax revenue would decline by \$76.9 million to \$355.0 million by the third year after adoption.
- After the third year of adoption, Illinois would suffer a loss in labor income between \$36.0 billion and \$40.0 billion over the next five years.
- After the third year of adoption, the five-year reduction in state income tax revenues would be between \$1.4 billion and \$1.6 billion.



Conclusions

While considerable efforts have been made by legislators and political organizations to pass right-to-work laws in states across the country, the empirical evidence on the effect of adopting a RTW law does not support prescribing it as an economic policy tool. If a RTW law is to be in the policy discussion for Illinois, the state's voters, residents, workers, and policymakers deserve information on the probable impact of such action.

As noted, "right-to-work" is a misnomer that has little to do with the right of a person to seek and accept gainful employment. Instead, RTW really means: the right to work in a compromised union setting but to nonetheless receive the benefits of collective representation without having to contribute toward the cost of obtaining those benefits.

By every measure this study demonstrates that workers earn more in collective bargaining states. In 2012, without adjusting for any factors, the average hourly wage of a worker was higher in CB states than in RTW states. Even after controlling for other factors, 14 out of 16 models report a negative impact of RTW on earnings and another produced a statistically insignificant effect. RTW laws also have strong negative effects on manufacturing and construction industry wages. Additionally, RTW laws had no positive effect on worker wages during the recession and have had an unambiguously negative effect on real wages in the post-recession years. If Illinois were to pass a RTW law, workers would experience a reduction in their hourly work income and, consequently, a reduced consumption capacity.



The effect of RTW on earnings growth is unclear. In general, RTW appears to be associated with a very small positive effect on wage growth, with the possibility that the effect diminishes over time. If Illinois were to pass a RTW law, workers may for a brief time experience very minimal wage growth, but the increase would never be enough to compensate for the policy's prominent downward effect on wages. Furthermore, any income gain would be far less than what would have been earned if the workers had continued to be employed in a CB state. Simply put, RTW is a recipe for lower lifetime earnings.

In terms of real hourly wages, unions have fared far better at raising and protecting worker earnings than RTW laws. Union membership has an unambiguously positive impact on a worker's wages. While RTW limits a union's ability to improve the wages of its members, the union wage effect is still quite robust in RTW states. Additionally, union membership has contributed to a small increase in wages above the rest of the employed workforce since the recession officially ended. If Illinois were to enact RTW, it would strip workers of one device (i.e., collective bargaining) that has proven to boost incomes since the 2007-2009 recession.

While the current unemployment rate is slightly higher in CB states, much of this could be attributed to the fact that more people participate in the labor force in those states. While RTW states as a whole do have a lower unemployment rate compared to CB states as a whole, they also have a lower aggregated employment

rate. Digging deeper, RTW's impact on employment is mixed. In terms of the probability of having a job, the effect of RTW ranges from a small decrease to a small increase. For the private sector, RTW laws are associated with a 0.4 percent increase in private sector employment each year, but the effect diminishes over time. The law's ultimate effect on Illinois' employment may at best be slightly positive but temporary. When isolated and measured against other job creation variables, RTW has no proven record of stimulating meaningful economic growth. By comparison, Illinois would reap far greater economic benefits by increasing its investment in education and skilled-based training.

RTW has an obvious negative impact on union membership. Additionally, for female, African-American, and Latino/a workers, RTW tends to have negative impacts on real hourly wages. RTW in Illinois would not only reduce union membership, it would remove structures that reduce racial and gender inequality.

Finally, RTW would substantially reduce labor income in Illinois, resulting in a dramatic decline in state income tax revenues. As Illinois struggles with difficult choices about how to pay for investments in hard (e.g., bridges) and soft (e.g., education) infrastructure, RTW would leave both the state's current citizens more vulnerable and future constituents more likely to inherit a diminished capacity to prosper.

Right-to-work laws have overall negative impacts for American workers. RTW laws should also not be viewed as buffers which improved labor market outcomes during the Great Recession. Indeed, the conclusive negative consequences of RTW laws (lower earnings, lower union membership rates, negative effects on both female and African-American workers, and negative to neutral impacts on Latino/a worker wages) outweigh the inconclusive benefits. RTW does not appear to be an effective policy mechanism to advance a state's economic recovery.

By and large, as a policy prescription, RTW would generate harmful effects to Illinois' economy, lower its capacity to provide essential public services, and degrade the quality and condition of the state's labor force.

¹ Hyde Park Johnny, *Daily Kos* (2013).

² French, *CBS St. Louis*, (2013).

³ See Mishel (2012), Hirsch (2004), and Blanchflower and Bryson (2004) for union wage premium estimates.

⁴ Collins (2012).

⁵ Hogler (2011).

⁶ In other words, the true probability of being a union member is 12.2 percent.

⁷ Reasons why this could be the case are that collective bargaining agreements may be binding for the first few years after RTW's enactment, the tendency of wages to be "sticky" in the short-run, and the fact that consumers may smooth out their loss in incomes (i.e., the ability to consume) such that consumer demand does not fall dramatically at once.

⁸ The two data used for this analysis were the Current Population Survey Outgoing Rotation Groups (CPS-ORG) and the Covered Employment and Wages program (commonly called ES-202 data). CPS-ORG data- which is collected, analyzed, and released by the U.S. Department of Labor Bureau of Labor Statistics (BLS)- reports individual-level information on 25,000 respondents nationwide each month.



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